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About Us

At PwC, our purpose is to build trust in society and solve important problems. In our increasingly complex world, we work with businesses, government and the community to deliver solutions and sustained outcomes. To help Australia continue to thrive and grow.

We're a network of firms in 152 countries with over 328,000 people. PwC is one of the top 50 brands worldwide and PwC Australia is among LinkedIn's top companies for where Australians want to work.

We are a team of more than 8,000 people who are committed to delivering quality in assurance, advisory and tax services to more than 5,000 clients across Australia.

Consultation on crypto token mapping

We welcome the opportunity to respond to your invitation to provide feedback on the 'token mapping' step in the Government's multi-stage reform agenda to develop appropriate regulatory settings for the crypto sector.

PwC Australia shares the Government's desire to see our economy benefit from the technological innovations arising from emerging technologies, including the creation of a local crypto ecosystem. We support the government's focus on ensuring this ecosystem is trusted by consumers, protects investors, minimises fraudulent activities, and provides a clear framework to allow Australian companies to innovate and remain competitive.

In attachment 1 we have provided answers to the questions posed in the consultation paper which we feel best align with our role and position in the ecosystem.

We would like to thank the Treasury for the opportunity to contribute to the consultation



process.



Attachment 1 - Detailed responses

Question	PwC Response & Examples
Q1) What do you think the role of the Government should be in the regulation of the crypto ecosystem?	<ul style="list-style-type: none">• We support the Treasury's token mapping-based strategy enabling the application of the same principles and regulatory tools that apply to the regulation of traditional products and bringing tokens into the functional perimeter of existing regulation.• As global jurisdictions are establishing regulatory approaches to crypto ecosystems and assets, the Australian Government has an opportunity to align our approach with key global jurisdictions in order to establish a consistent framework that will enable consumer trust, enable innovation and protect our monetary sovereignty.• We believe the Government's role in crypto regulation should be aimed at finding the right balance between fostering innovation and growth, while protecting consumers and investors. Whilst not imminent, the Government must also consider potential risks posed to monetary sovereignty by high consumer adoption of a non-Australian Dollar crypto asset as a means of value store or exchange. Establishing a regulatory pathway for Australian-based crypto organisations to innovate will foster domestic economic growth, financial innovation and decrease the likelihood of consumers adopting a foreign-based crypto ecosystem for their day to day transactions.• Cryptocurrency and blockchain technology have the potential to disrupt and transform various industries and services, including expanding financial products beyond traditional financial market participants, as such, clear guidelines and regulations are needed to ensure the ecosystem is able to



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	<p data-bbox="1066 451 1675 483">operate and grow in a safe and responsible manner.</p> <p data-bbox="968 516 1955 760">As noted by the Treasury, government responses to cryptocurrency and blockchain technology have been varied. Current consultations and draft legislation provide a potential pathway to regulatory alignment across major jurisdictions. Specifically HM Treasury's Future financial services regulatory regime for crypto assets and the EU's Markets in Crypto-Assets (MiCA). We encourage the Government to seek alignment across major jurisdictions to facilitate global reach for Australian-based entities and access to global opportunities for Australians. Governments globally have also undertaken punitive actions, including:</p> <ul data-bbox="1016 792 1955 1305" style="list-style-type: none"><li data-bbox="1016 792 1955 971">• United States: The U.S. Securities and Exchange Commission (SEC) has taken action against several initial coin offerings (ICOs) that were deemed to be offering unregistered securities. Additionally, the Financial Crimes Enforcement Network (FinCEN) requires cryptocurrency exchanges to register as money service businesses (MSBs) and implement AML/KYC policies.<li data-bbox="1016 1003 1955 1125">• Japan: In 2017, Japan passed a law that recognized Bitcoin and other cryptocurrencies as legal tender. The law requires cryptocurrency exchanges to register with the Financial Services Agency (FSA) and comply with AML/KYC regulations.<li data-bbox="1016 1157 1955 1305">• European Union: In 2018, the EU enacted the Fifth Anti-Money Laundering Directive (5AMLD), which requires cryptocurrency exchanges to comply with AML/KYC regulations and report suspicious transactions. Additionally, the European Securities and Markets Authority (ESMA) has issued guidance on the regulation of ICOs.

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	<ul style="list-style-type: none"> • China: China has banned initial coin offerings (ICOs) and cryptocurrency trading platforms. However, the government has expressed interest in developing its own central bank digital currency (CBDC) and at the same time Chinese Universities have tabled Blockchain technology as a key education curriculum. • South Korea: South Korea has enacted regulations that require cryptocurrency exchanges to register with the Korea Financial Intelligence Unit (KFIU) and implement AML/KYC policies. Additionally, the country has provided clear taxation guidelines on cryptocurrency trading profits.
Q2) What are your views on potential safeguards for consumers and investors?	<ul style="list-style-type: none"> • We are a strong advocate for consumer and investor safeguards to ensure a safe and fair crypto ecosystem. • Please refer to our answer to Q3(a) for detailed examples of potential safeguards.
<p>Q3) Scams can be difficult for some consumers to identify.</p> <p>a) Are there solutions (e.g. disclosure, code auditing or other requirements) that could be applied to safeguard consumers that choose to use crypto assets?</p> <p>b) What policy or regulatory levers could be used to ensure crypto token exchanges do not</p>	<p><i>a) Are there solutions (e.g. disclosure, code auditing or other requirements) that could be applied to safeguard consumers that choose to use crypto assets?</i></p> <ul style="list-style-type: none"> • We believe in the principle of educating consumers to help them make informed decisions when it comes to consumer safeguards. Some possible solutions we believe the Government may consider include:



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<p>offer scam tokens or more broadly, prevent consumers from being exposed to scams involving crypto assets?</p>	<p>1.) Focusing on centralised asset exchanges, establishing a licensing and registration framework for local exchanges. Exchanges may require token issuers to meet specific requirements depending on the types of assets on offer, including the publishing of the underlying whitepapers upon which the assets are established and governed.</p> <p>Additionally, reciprocity measures may be granted to other jurisdictions with similar regulatory environments, such as the Bitlicense issued by the New York State Department of Financial Services.</p> <p>Other example of regulatory insight: Exchange A is a publicly listed US company that must have periodically audited financials and adhere to SOx compliance requirements, additionally Exchange A also has a SOC 2 controls report for its custodian services. Exchange A should be noted as a business that has met more regulatory and compliance requirements in comparison to most other similar crypto-related businesses/service providers.</p> <p>2.) The Government may help educate consumers by recommending educational material on best practices and common pitfalls when it comes to the use or investment of crypto assets. The Government may consider leveraging already existing educational material from reputable sources.</p> <p>Examples include:</p> <ul style="list-style-type: none">● Highlighting and providing easy to understand examples on the various risks such as market risk, liquidity risks, cybersecurity risks and end-user error risks when it comes to crypto usages and investment.

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	<ul style="list-style-type: none"> • Highlighting the pros and cons of using a centralised exchange vs setting up your own wallet vs using both for different activities. • Sharing tutorials and guides on setting up one's own crypto wallet, including highlighting the pros and cons of commonly used hardware wallets vs. software wallets. • Sharing good practice guidelines and examples for the storage and safe custody of recovery seeds and backups. <p>The Government may consider enforcing the requirement for new users to pass a basic crypto knowledge test before onboarding, similar to the current tests required for margin trading. We believe a basic crypto knowledge test would prevent a large number of potential retail, 'mum and dad' investors from being exposed to unfamiliar risks and potential scams.</p> <p>3.) The Government may conduct and report on the results of code review and smart contract audits for some of the most commonly used tools and smart contracts in the ecosystem. However, consumers need to be aware that even the most thoroughly reviewed code and smart contracts are still not free from potential bugs, hacks and other vulnerabilities.</p> <p>For example:</p> <ul style="list-style-type: none"> • A code review is conducted over one of the most commonly used open-source software wallets to ensure the integrity of the software. Results are published and made publicly available. (i.e. Metamask) • A smart contract review is performed over one the most commonly used Defi lending applications to ensure the integrity of the platform.

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	<p>Results are published and made publically available. (i.e. AAVE, TerraLuna)</p> <p><i>b) What policy or regulatory levers could be used to ensure crypto token exchanges do not offer scam tokens or more broadly, prevent consumers from being exposed to scams involving crypto assets?</i></p> <p>We support the Government's function based approach proposed in the consultation and the application of existing policy and regulatory requirements on this basis. We also support alignment with pending EU and UK regulatory approaches, specifically their focus on centralised exchanges.</p> <p>Regulatory or policies levers we believe the Government may explore, include:</p> <ul style="list-style-type: none"> • Licensing and registration: the Government may consider requiring crypto-related businesses to obtain licences and register with relevant regulatory bodies, mandating periodic independent reviews and audits of financial health and internal controls. While jurisdiction limits the ability to include offshore entities, licensing could provide Australian consumers with safer local options. Consideration should be given to whether additional licensing requirements specific to crypto assets are required, or whether existing requirements can be applied. • Other licensing requirements we have seen in other jurisdictions (Japan) include, requiring the holder to have a physical office within Australia, having an Australian representative, having a full time internal compliance manager and engaging with external auditors to review compliance with client asset/monies obligations.

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	<ul style="list-style-type: none"> • Auditing and reporting requirements: the Government may consider requiring exchanges to undergo periodic audits and reporting on their financial health and internal controls environment (i.e. ASAE 3150, SOC2s). • Disclosure requirements: the Government may consider requiring exchanges to disclose clear and accurate information such as: <ul style="list-style-type: none"> ◦ Information on each of the tokens offered by the exchange, including the token's purpose/utility, creator/developer and their backgrounds, history of the token, liquidity of the token and distribution of token holders. Potential red flags and risks should be highlighted to the end user. (Example: Half of Token A's circulating supply is held by the creator and is unlocked.) • AML/KYC compliance: the Government may mandate that crypto-related businesses implement Anti-Money Laundering (AML) and Know Your Customer (KYC) policies. Noting this is already required for on and off-ramp steps to convert positions from and to fiat. • Consumer protection: the Government may establish consumer protection measures for crypto users, such as requiring exchanges to have insurance policies in place to protect against consumer losses and ensuring internal controls to prevent, detect and monitor potential customer fraud. Example: A number of different institutions are offering products and services in the crypto insurance space, including: Lloyds, Evertas and IMA Financial Plans.